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East Germany's Economic Links to West Germany

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An Intelligence Assessment

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EUR 84-10160
August 1984

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East Germany's Economic Links to West Germany [redacted]

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An Intelligence Assessment

This paper was prepared by [redacted] Office of European Analysis. Comments and queries are welcome and may be directed to the Chief, East European Division, EURA, [redacted]

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East Germany's Economic Links to West Germany [redacted]

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Key Judgments

Information available as of 27 July 1984 was used in this report.

A unique bilateral economic relationship has allowed East Germany to derive significant benefit from West Germany over the last 35 years despite their often bitterly adversarial political relations. Just as significantly, East Germany has been able to do so without becoming excessively dependent on its Western neighbor:

- During 1976-82 alone, the special relationship yielded an estimated net flow of resources to East Germany totaling over 12 billion West German marks (DM), [redacted] (This was worth nearly $6 billion at then prevailing exchange rates.) 25X1
- In June 1983 Bonn decided to guarantee an untied DM 1-billion loan from West German banks. Another loan of similar proportions was approved in July 1984. [redacted] 25X1

The key for East Germany has been its ability to exploit special intra-German trade and financial mechanisms to obtain vital imports on credit and to obtain hard currency for purchases in other countries:

- Bilateral trade has been conducted since the early 1950s through a clearing account mechanism that allows East Germany to purchase West German goods without spending hard currency.

- Because of readily available West German credits, East Berlin has been able to run chronic bilateral trade deficits that, particularly during the 1970s, allowed it to support rapid economic growth and rising consumption.

- Since the normalization of relations in 1972, millions of West German visitors have provided significant hard currency revenues. Bonn has also paid East Berlin considerable sums of hard currency for services and for major construction projects improving the economic health of West Berlin. [redacted] 25X1

Although East Germany did not escape the economic malaise that gripped Eastern Europe by the early 1980s, the intra-German relationship helped East Berlin to weather its acute financial problems in 1982-83. East Germany used the clearing account to finance increased imports of West German goods as well as commodities obtained from third countries. At the same time, East Berlin not only boosted sales to other Western countries, but used the large special earnings on services to West Germany to cover hard currency obligations outside West Germany. Perhaps most important, Western lenders have seen Bonn's loans as creating a West German financial "umbrella" underwriting East Germany's creditworthiness. [redacted] 25X1

[redacted] 25X1

Bonn has supported these special economic mechanisms more for political than commercial reasons, and has done so for most of this period without wresting major political concessions from East Berlin. All West German governments have felt responsibility for the well-being of the East German people, and most have justified a special relationship as keeping alive ties that could lead to eventual reunification. [redacted] 25X1

We believe that East Germany will continue to be able to derive considerable economic benefit from its special relationship at relatively little cost. We expect Bonn will adhere fundamentally to its accommodating line despite conflicting domestic pressures in West Germany that will impel it to seek more tangible political concessions for future assistance:

- Tourism, fees, and long-term agreements on services should provide East Berlin at least DM 2 billion annually over the next few years.
- The extensions of the loan guarantees serve as a precedent for Bonn providing special assistance on short notice. [redacted] 25X1

Although not economically dependent on the West German connection in any absolute sense, we believe East Germany will continue to regard the special relationship as vital to addressing its significant economic problems:

- East Germany's financial position, although improved significantly, remains vulnerable: its factories need modernization, and it must become more efficient in its use of oil and raw materials that Moscow is reluctant to continue providing on concessionary terms.

East Germany's dealings with West Germany will be constrained, however, by the Soviet leash and its own fears of becoming too dependent on its neighbor. [redacted] 25X1

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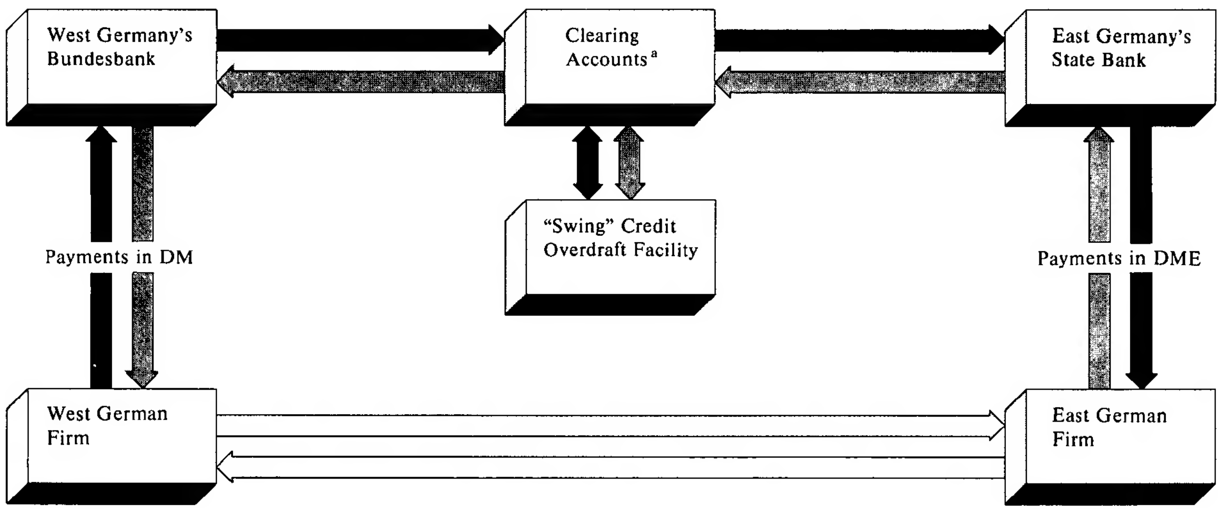
Figure 1
Intra-German Trade: Goods and Payments Flow

- Financial flows accompanying sale of East German goods to the FRG
- Financial flows accompanying sale of West German goods to the GDR
- Merchandise flow accompanying sale of West German goods to the GDR
- Merchandise flow accompanying sale of East German goods to the FRG



This diagram represents a conceptualization of intra-German trade. In a typical transaction, an East German exporter delivers goods to a West German firm and is paid in East German marks (DME) by the East German State Bank. The FRG firm pays for the goods by delivery of West German marks (DM) to the Bundesbank. The two central banks settle the transactions in accounting units (VE) through the clearing account. In the case of an East German purchase, the payments flows are reversed.

[a] All clearing account flows are in Verrechnungseinheit (VE).

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East Germany's Economic Links to West Germany [redacted]

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Ties between the two Germanys have long included a special economic relationship that has provided East Germany substantial support, especially since the early 1970s. This paper attempts to analyze the various aspects of that special relationship—trade, credits, service transactions, payments for emigration, and transfers—and to assess the economic advantages East Germany has derived and the prospects for future benefits. The paper also provides a description of the legal and institutional framework governing trade and financial links between the two countries. The conclusions must remain tentative in some areas, however, because we have only limited information on the inner workings of the economic relationship. Both Bonn and East Berlin cloak many of their dealings in considerable secrecy. [redacted]

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The First Quarter-Century

Despite the severe disruption of economic ties during the late 1940s as a result of the occupation policies of the victorious allies, particularly the Soviets who forced partition, West Germany remained a relatively important trading partner for East Germany. In the early 1950s, West Germany was East Germany's largest nonsocialist partner but lagged Poland, Czechoslovakia, and Hungary as well as the USSR. This pattern reflected, of course, eastern Germany's traditional trade ties with the western part of Germany as well as East Berlin's limited commercial relations with other Western countries and its heavy dependence on trade with the USSR and its new East European allies.[1] [redacted]

Despite political tensions during the 1950s, both sides sought improved commercial relations. Although the Adenauer government refused to recognize East Germany as a separate country (and threatened to break relations with any country that did), it favored an expansion of commercial links. Moreover, West German business and labor wanted to boost exports as a way of fostering growth. For its part, East Germany needed capital equipment and spare parts unavailable in the East. Such motivations contributed to the conclusion in 1951 of the Inter-Zonal Trade Agreement (IZT), which established rules for bilateral commerce and facilitated trade during a period when the two countries' currencies were inconvertible and both countries were short of hard currency (see inset, "The Intra-German Trade and Finance Mechanism" and figure 1). The IZT established a clearing account mechanism and included a "swing" credit overdraft facility to cover short-term trade imbalances. These arrangements reduced the need for East German firms to obtain bank financing for their trade with West Germany. The 1957 Treaty of Rome, which established the European Economic Community, explicitly protected the intra-German trade relationship by accepting Bonn's claim that this trade is "domestic" and by exempting East German exports to West Germany, but not to other members, from tariffs. [redacted]

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By 1960 the value of West Germany's share in East Germany's overall trade had increased from less than 5 percent to about 11 percent, or to over 45 percent of East Germany's trade with the nonsocialist world.[2] The volume of trade continued to rise in the 1960s despite the Berlin Wall crisis and continuing East-West tensions (see figure 2). In the 1960s West German businessmen, becoming convinced that bilateral tensions were costing them contracts, increasingly pushed for an easing of trade restrictions. The West German Government itself came to show greater interest in improving relations with East Germany, particularly after the Social Democrats became part of the ruling "Grand Coalition" in December 1966. Government steps to help stimulate trade included a

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[1] By contrast, the FRG's greater size, more rapid growth, and marked reorientation toward the West consistently have made bilateral trade with East Germany comparatively less important to it. In terms of trade volume, the GDR is about as important to the FRG as Denmark. [redacted]

[2] See appendix A for a description of the data sources and problems associated with the analysis of intra-German economic relations. [redacted]

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The Intra-German Trade and Finance Mechanism

Reflecting the unusual intra-German political relationship, the two Germanys have established special mechanisms to handle bilateral trade. The legal basis of intra-German trade continues to be the September 1951 Interzonal Trade Agreement, or Berlin Agreement, that was established to facilitate trade between the two Germanys. Modified several times, the Agreement requires that:

- *Trade must eventually be balanced, although no payment schedule is stipulated.*
- *Trade is conducted in a special accounting unit, the* Verrechnungseinheit *(VE), which for practical purposes is equal to the West German mark (DM) but which cannot be converted into DM.*
- *Payments are made through clearing accounts of the note-issuing banks of each country. The banks currently operate three accounts—two for commodities and one for services.*
- *To maintain the flow of goods, each side is allowed to overdraw its clearing accounts up to a specified limit—the "swing" credit. Originally, any overdraft had to be settled once each year. The FRG waived its right to this requirement in 1968, and the swing subsequently has been, in effect, a permanent West German interest-free credit to East Germany.*
- *A special "Account S" established in 1958 allows payment for goods and services in hard currency. East Germany has used the account rarely in recent years to make payments. East Berlin, however, has sought to have some of its receipts funneled through Account S, while generally using the clearing account to run up its debt to the FRG.* 25X1

Medium- and long-term financing of West German capital goods exported to the GDR is handled by a special organization, the Gesellschaft zur Finanzierung von Industrieanlagen MbH (GeFi). Although under the administrative control of the corporation that finances East-West trade (Ausfuhrkredit-Gesellschaft MbH, AKA), the GeFi is a legally independent institution. Similarly, West German export insurance is provided by the Deutsche Revisions und Treuhand, A.G. (Treuarbeit) instead of Hermes-Kreditversicherungs A.G. (Hermes), a private company which acts as agent for the FRG Government in providing credit insurance for exports to other countries. In contrast, East Berlin handles intra-German trade through its regular foreign trade institutions because it considers such transactions to be foreign commerce. 25X1

gradual simplification of commercial regulations, relaxation of some quotas, and cuts in tax rates. After months of negotiation, interrupted only briefly by the Warsaw Pact invasion of Czechoslovakia, the two sides signed a new trade agreement in December 1968. The agreement raised trade quotas and increased the level of the "swing" credit, and the West German Government waived its right to demand annual balancing of merchandise trade payments.

New Ties

The economic relationship expanded further with the normalizing of political relations in the early 1970s. The new government of Chancellor Brandt sought improved relations with the GDR in order to increase contacts between residents of the two countries, to improve links between the FRG and West Berlin, and to keep alive hopes for eventual German reunification. West Germany also offered to conduct relations on a more equal basis (implying the abandonment of its longstanding claim to being the only legitimate German state) and held out the prospect of increased economic benefits. 25X1

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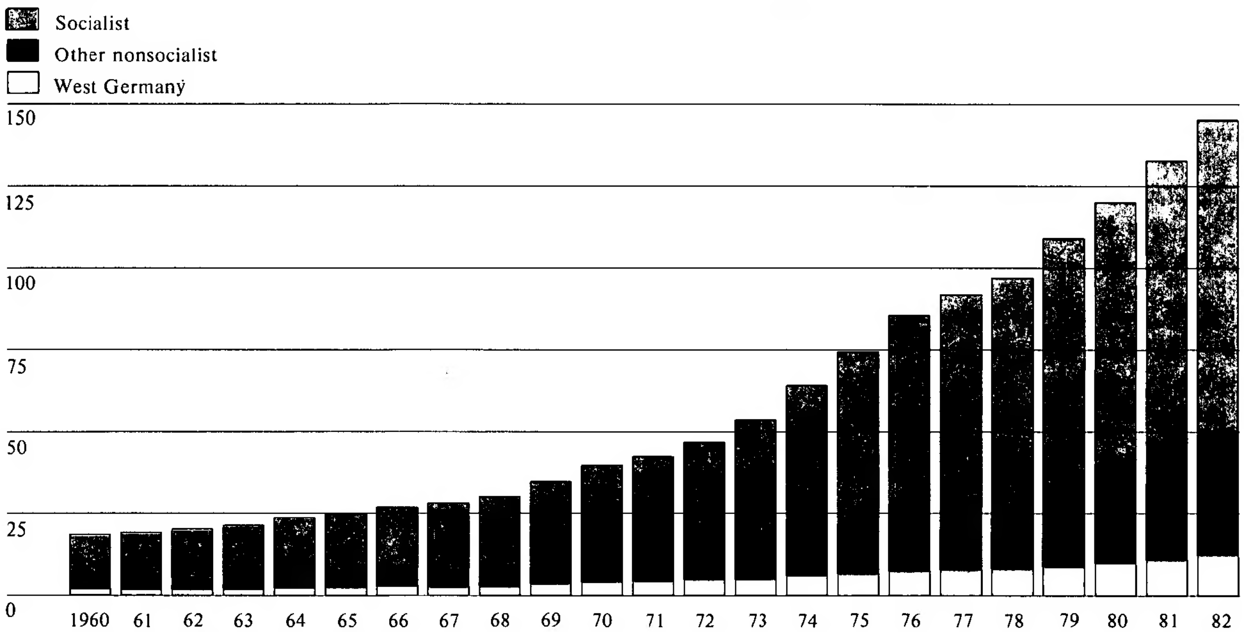
East Berlin eventually responded to Bonn's overtures, but only after some prodding from Moscow and the replacement of hardline party leader Walter Ulbricht by Erich Honecker.[3] The Honecker regime probably saw Bonn's offer of "equality" as a way to boost its

Figure 2
East Germany: Foreign Trade by Country Groups, 1960-82

Turnover in billion East German marks



Source: *Statistisches Jahrbuch der Deutschen Demokratischen Republik* (various years)

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legitimacy and international standing. While remaining wary of close economic ties because of fear that they would lead to an undesirable dependence on its rival and raise concern in Moscow, the Honecker regime also undoubtedly tried to exploit the advantages of economic cooperation—particularly in view of its ambitious plans for the 1970s.

The economic consequences of this new special relationship—especially after conclusion of the "Basic Treaty" in 1972—have been a steady increase in bilateral trade, chronic East German trade deficits (financed largely by readily available West German trade credits), and significant hard currency earnings for East Berlin from invisible transactions and direct payments by Bonn. West German Government estimates of the balance of payments between East and West Germany indicate that the relationship has yielded a net flow of resources to East Germany totaling some 12.4 billion West German marks (DM) over the period 1976 to 1982.[4]

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[3] East German Premier Stoph met Chancellor Brandt twice in 1970, but relations remained relatively cool until 1971, when Erich Honecker replaced Ulbricht and the four occupying powers signed the Quadripartite Agreement clearing up longstanding East-West differences over Berlin. Subsequently, the two sides signed major new agreements in 1971 and 1972 that opened the way for much expanded bilateral contacts. The "normalization" of bilateral political relations—through the conclusion in December 1972 of the "Basic Treaty on Relations Between the Federal Republic of Germany and the German Democratic Republic"—established the basis for all future intra-German dealings.

[4] In this paper we generally use West German Deutsche Marks (DM) because West German trade and financial data are our best source of information and valuation in DM provides a better indication of real resource transfers during a period of considerable fluctuation in the dollar-DM exchange rate. The estimated net gain to East Germany of DM 12.4 billion would equal nearly $6 billion converted at the average annual exchange rates prevailing in the period 1976-82. See appendix B for data on exchange rates.

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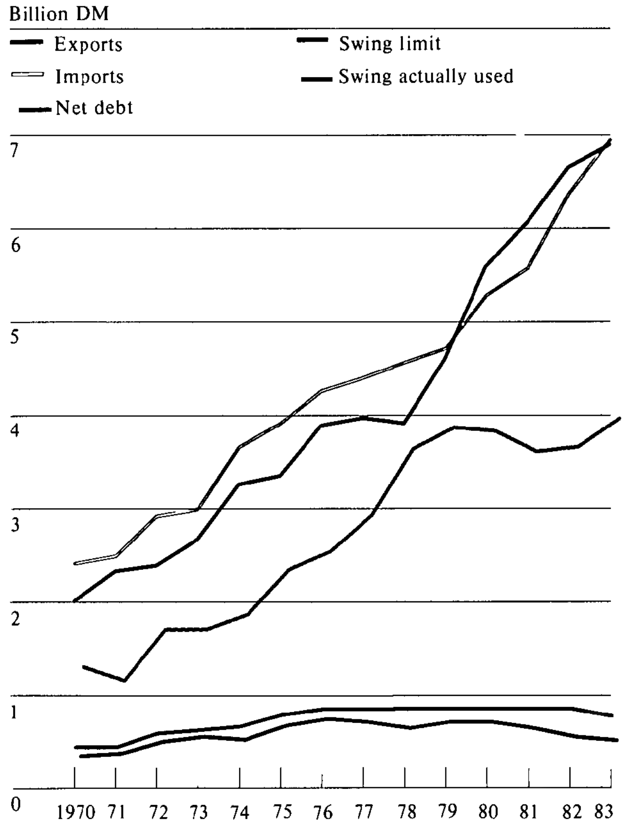
East Germany's Commercial Advantages in West Germany

Although subject to licensing and some restrictions, East German goods enjoy special access to West German markets. The intra-German trade clearing mechanism—unique in East Germany's trade with developed Western countries—reduces the need for arranging commercial bank credits, a major advantage in times of tight credit. The clearing mechanism also eliminates the risk of exchange rate fluctuation, a problem when East Germany trades with third countries in dollar-denominated deals. 25X1

East German manufactured goods are not subject to West German tariffs. The GDR thus escapes duties which the EC estimates will average 7 percent when the current (Tokyo) round of tariff cuts is completed. Moreover, Bonn does not impose a value-added tax (currently 14 percent) on East German manufactures even though they are classified as "domestic" goods, thus giving West German importers special incentive to buy East German products. Bonn also exempts East German services and agricultural goods from other domestic taxes. On the other hand, Bonn charges a tax on sales to the GDR even though it does not tax "exports." West German officials have argued publicly that the purpose of the tax was to help reduce East Germany's chronic trade deficits. 25X1

The actual benefit to the GDR of such policies is difficult to calculate because the savings are shared by both purchasing and selling firms. West German consumers also benefit from lower prices. One West German critic of the special relationship nevertheless estimates, probably excessively, that in 1980 the FRG government lost DM 1 billion from the duty exemption, DM 100 million from the farm product exemption, and DM 300 million from the lack of VAT. 25X1

Figure 3
East Germany: Trade and Debt With West Germany, 1970-83



Source: *West German Government Statistics*

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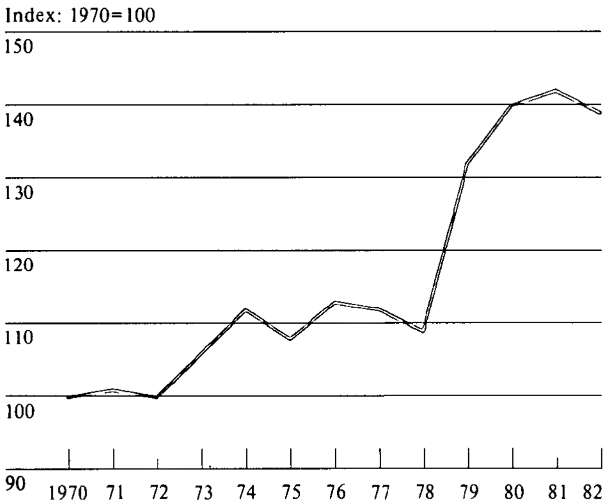
Intra-German Trade. Developments in bilateral trade since the early 1970s have been shaped by the two countries' competing political objectives, their desire to exploit the commercial opportunities offered by mutually advantageous trade, and the unique institutional arrangements that govern their trade. East Germany used its commercial ties and special financial arrangements with West Germany to boost imports, particularly of capital goods, chemicals, and nonferrous metals; to support its ambitious targets for economic growth; and to sustain increases in personal consumption. Despite its preferential access to West German markets (see inset, "East Germany's Commercial Advantages in West Germany"), the growth of East German exports—while impressive in some years—did not keep pace with imports, in part because of the low quality of goods being offered. As a

Figure 4
East Germany: Terms of Trade With West Germany, 1970-82



Source: *German Institute for Economic Research* (West Berlin)

[redacted]

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result, in the decade ending in 1979, East Germany annually ran deficits in its trade with West Germany—averaging about DM 400 million per annum (see figure 3 and appendix C).[5] East Germany returned to surplus in 1980-82, before the onset of its financial crisis, as the regime pushed exports harder and controlled imports better. [redacted]

[5] East Germany ran the deficits despite significant surpluses in its trade with West Berlin. The GDR sells large quantities of goods to the city; much of the oil products it sells to the FRG go to West Berlin, and East Germany also provides the enclave significant quantities of raw materials. West German statistics show that, in 1982, nearly 31 percent of East German exports to the FRG went to West Berlin, whose population was only about 3 percent of West Germany's. [redacted]

East Germany's cumulative trade surplus with West Berlin totaled nearly DM 6 billion during the 1970s even as its overall deficit with the FRG during the period was DM 4.1 billion. The surpluses swelled further in 1980-82, reaching 1.72 billion DM in 1982. Without its commerce with West Berlin, East Germany's trade balance with West Germany in 1982 would have shifted from a DM 257-million surplus to a DM 1.46-billion deficit. [redacted]

Technically, West Berlin and East Berlin do not "belong" to the FRG or GDR. Unless otherwise noted in this paper, however, each country's statistics include "its" part of Berlin. [redacted]

Despite the advantages of bilateral trade, we believe that the Honecker regime kept the size of these deficits under some control because neither it nor the Soviets wanted East Germany to become excessively dependent on West Germany. Another factor helping to moderate the size of bilateral trade deficits was the improvement in East Germany's terms of trade with West Germany (see figure 4). Scholars at the German Institute for Economic Research (DIW) estimate that East Germany's terms of trade improved by nearly 39 percentage points between 1970 and 1982, with particularly large gains in 1973-74 and 1979-80—years of large oil price hikes. Their price series indicate that East Germany's worsening terms of trade in capital goods and farm products was more than offset by improvements in manufactured goods and, particularly, raw materials related to oil. [redacted] 25X1

The composition of intra-German trade has been similar to West Germany's trade with other East European countries. West Germany has continued to export technically advanced goods, according to West German statistics, while in recent years about three-fourths of its imports from East Germany consisted of 25X1 raw materials, semifinished goods, and consumer products. The share of investment items in East German sales fell in the early 1970s and in recent years has languished at about 10 percent (see figure 5 and appendix D). [redacted] 25X1

The East Germans have had little success in selling high-technology goods to the West and, in the manufactures field, have concentrated on relatively simple 25X1 machinery and consumer goods. [redacted] 25X1 [redacted] the East 25X1 Germans have consistently exported rather poor-quality goods and have suffered from marketing and service problems. In addition to oil products, East Germany exports large quantities of intermediate goods—such as steel and chemicals—which it can 25X1 price competitively and which face less stringent quality standards. Knowledgeable West German commentators and government officials regularly have expressed dissatisfaction with the composition of bilateral trade and have pointed to the low technological level of East German goods as a major impediment to 25X1 the further growth of intra-German commerce. [redacted] 25X1
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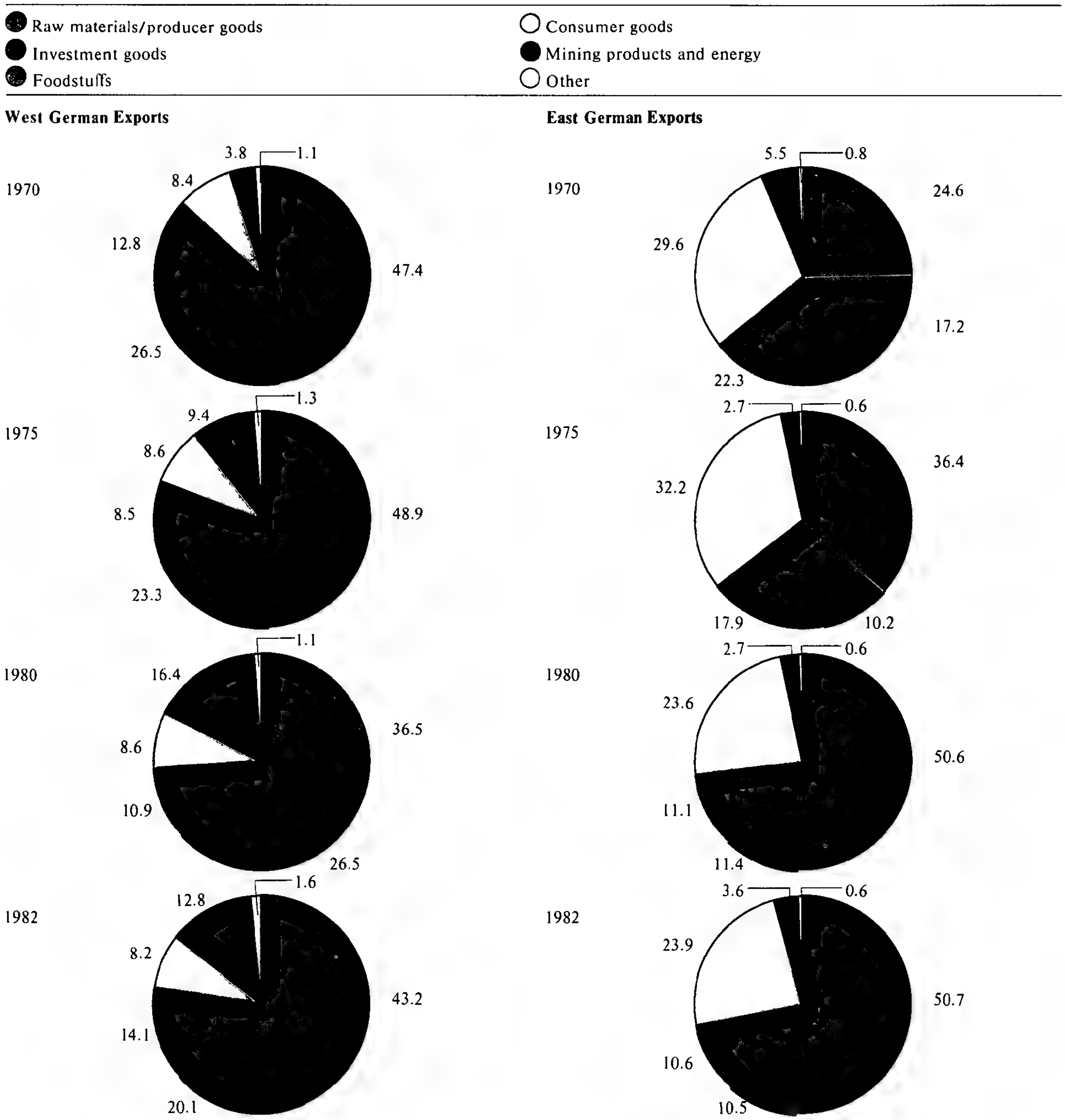
Figure 5
East Germany/West Germany:
Composition of Trade, 1970-82

Percent



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Window to the West?

The lack of West German tariffs on East German goods provides East Berlin an opportunity to use West Germany as a channel for sending goods to other EC countries. [redacted] *the East Germans on occasion have:*

- *Falsely labeled East German products as West German or "German" for duty-free reexport to other EEC countries.*
- *Reassembled or repackaged Eastern Bloc and Asian goods for reexport to the FRG as East German products.*
- *Delivered components for assembly in West Germany as West German goods.*

West Germany periodically has charged businessmen with violations of trade regulations and has obtained convictions. [redacted]

The West German Government estimates, however, that such illegal transactions account for less than 1 percent of bilateral trade. Evidence available to us suggests that East Germany does not pursue an official policy of directing exports to other EC countries through West Germany. [redacted] *high-level East German directives about developing commerce, especially exports, with selected nonsocialist countries—including EC member France—fail to mention any efforts to route sales through the FRG. In fact, East Berlin repeatedly has sought to negotiate individually with other nonsocialist countries bilateral trade pacts, barter deals, official credits, and loan guarantees on terms that require payment of appropriate duties.* [redacted] 25X1 25X1 25X1

If comparatively easy access to the West German market has skewed the distribution of East Germany's trade with nonsocialist countries, it does not appear to have markedly increased East German trade with Western countries as a group. Neighboring and structurally similar Czechoslovakia, which conducted only 6.2 percent of its trade with West Germany versus East Germany's 8.6 percent in 1982, showed an overall trade with the West that was nearly identical to East Germany's, according to official statistics. Moreover, Hungary and Romania—and Poland before its recent economic troubles—have had higher percentages of overall trade with the West. [redacted] 25X1 25X1 25X1

Accompanying the rise in intra-German trade in the 1970s was an even faster growth of East German trade with other nonsocialist countries and LDCs. A slowdown in the growth of deliveries of Soviet raw materials threatened ambitious East German plans for upgrading domestic consumption and led East Germany to turn increasingly to nontraditional partners such as the United States and the LDCs to cover its import needs. The boom in East-West trade and the increased availability of Western credits in the early 1970s created opportunities for East Germany to increase trade with other Western countries. And, as hard currency deficits soared, East Germany tried to boost exports to these markets, sometimes using its special West German "window" (see inset, "Window to the West?"). As a result, although West Germany has remained East Germany's second-largest trading partner, East German statistics show the FRG's share of GDR trade with nonsocialist countries fell from about 36 percent in 1970 to less than 25 percent in 1981 before rising slightly in 1982 (see figure 2).[6] [redacted] 25X1

[6] Western partner country trade data, however, show a greater West German role in East Germany's trade with nonsocialist countries when calculated in hard currency terms. IMF, OECD, and West German data indicate that West Germany accounted for about 40 percent of such trade in the 1970s, ranging from as much as 46.0 percent in 1971 to as low as 37.7 percent in 1974. We believe that the discrepancy between the two series reflects valuation differences due to use of exchange rates that often do not correspond to current market rates, possibly differing concepts of attributing origins of foreign trade, and lack of accurate reporting by some LDCs. Western countries' data attribute commerce to the country of purchase or sale, while the East Germans reportedly source trade with Western firms to the country of each firm's parent organization—sometimes multinational corporations based in third countries. Such practices probably also help account for significantly different Western and GDR figures on East Germany's trade with Austria. East Berlin's presumably consistent method of calculating GDR trade worldwide makes its figures useful for comparing East Germany's trade by region of origin even though they may understate West Germany's role in economic relations with the West somewhat. [redacted] 25X1

Importance of The "Swing"

East Germany has long used the interest free "swing" credit extended by Bonn to finance its purchases from West Germany even when it ran trade surpluses. Created as part of the Frankfurt Agreement of 1949, the swing facility was raised in stages from DM 16 million in 1949 to DM 30 million in 1951 and to DM 200 million in 1960. In the period 1969-75, the swing was set at 25 percent of the previous year's bilateral trade before being raised to a flat DM 850 million in 1976. An impasse in late 1981 over terms for renewing the swing agreement—including West German efforts to link renewal of the swing to an East German reduction in the Zwangsumtausch *(the minimum daily currency exchange requirement imposed on Western visitors to East Germany)—prompted the two sides to extend the swing on existing terms for 6 months. They eventually agreed in June 1982 to cut back the swing gradually from DM 850 million to DM 600 million by 1985. At current interest rates and utilization levels, the swing represents a savings to East Berlin of about DM 30-50 million annually—the amount East Berlin would have to pay to secure the same credit from commercial sources.* [redacted] 25X1

As intra-German trade has grown, the swing has become a relatively less important means of financing trade. According to the German Institute for Economic Research (DIW), the value of the swing fell from 30 percent of overall trade in 1976 to 16 percent in 1982. Because trade is likely to grow and the credit limit is to fall through 1985, the swing will become an even less important instrument of bilateral trade. [redacted] 25X1

Financial Links. East Germany financed most of its trade deficits with West Germany during the 1970s by borrowing from FRG institutions and using the "swing credit," even though it was running large bilateral current account surpluses (see inset, "Importance of the 'Swing'"). In the years 1976-80, for example, movements in intra-German debt closely mirrored trends in the trade balance, with cumulative East German trade deficits totaling DM 1.3 billion compared with net capital inflows of DM 1.6 billion (see table 1). The positive services balance deriving from the "special relationship" had limited impact on the level of debt to West Germany because most of the earnings represented convertible currency receipts that East Berlin opted to spend outside the bilateral relationship. East Berlin's policy clearly has been to exploit the intra-German bilateral trade and financial mechanisms in order to maximize the financial resources available to cover hard currency purchases from other countries. [redacted] 25X1

Debt held by West German commercial and government sources roughly tripled during the decade before tapering off slightly in 1980-82 (see figure 3). We calculate that during the 1970s financing from West German domestic sources covered 62 percent of East Germany's accumulated deficit on bilateral trade, while credits from subsidiaries of West German banks in other countries may have provided an additional 10 percent.[7] Nonconvertible services ties and some convertible earnings payments through the so-called S hard currency account covered much of the rest. Much of this lending was extended by the West German Government. Official West German figures show that in 1982 government credits and guaranteed commercial loans comprised about 60 percent of the DM 4.6 billion in debt held by domestic West German sources—similar to the government's share in financing exports to other East European countries.[8] [redacted] 25X1

We estimate that in 1982 West German institutions held only about 15 percent of East Berlin's hard currency debt, although West Germany accounted for about 25 percent of East Germany's trade with all nonsocialist countries.[9] The relatively low West German share of East German debt in part reflects the

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[7] [redacted] FRG banks use offshore subsidiaries to raise most of the credits not covered by Bonn's loan guarantees and estimates that this is about 10 percent of all West German loans. [redacted] 25X1

[8] The DM 4.6-billion debt total reported for yearend 1982 is gross debt and does not take into account East Germany's claims on West Germany. Net debt, which subtracts from gross debt the amount of East German deposits in West German banks and East German trade credits extended to West German firms, stood at DM 3.7 billion at yearend 1982. [redacted] 25X1

[9] West Germany's actual share of East German debt almost certainly is somewhat higher. Although we believe we have captured most West German credits, we have probably not included all. A knowledgeable West German banker estimates, for example, that some short-term supplier credits are not even reported to the West German Government. [redacted] 25X1

Table 1
East Germany: Balance of Payments With West Germany

Million current West German marks

	1976	1977	1978	1979	1980	1981	1982
Current account balance	728 [d]	852 [d]	665 [d]	1,858 [c]	2,082 [c]	2,527 [c]	2,291 [c]
Trade Balance	−392 [a]	−448 [a]	−675 [a]	−144 [c]	321 [c]	577 [c]	356 [c]
Exports (gross)	3,877 [a]	3,961 [a]	3,900 [a]	4,589 [a]	5,580 [a]	6,051 [a]	6,639 [a]
Deductions [b]				233 [c]	207 [c]	233 [c]	227 [c]
Net				4,356 [c]	5,373 [c]	5,818 [c]	6,412 [c]
Imports (gross)	4,269 [a]	4,409 [a]	4,575 [a]	4,720 [a]	5,293 [a]	5,575 [a]	6,382 [a]
Deductions [b]				220 [c]	241 [c]	334 [c]	326 [c]
Net				4,500 [c]	5,052 [c]	5,241 [c]	6,056 [c]
Services (net)	500 [d]	580 [d]	600 [d]	1,245 [c]	902 [c]	1,091 [c]	1,104 [c]
Transfers (net)	620 [d]	720 [d]	740 [d]	741 [b]	859 [c]	859 [c]	831 [c]
Balance on capital account	190 [d]	390 [d]	710 [d]	186 [c]	88 [c]	−297 [c]	117 [c]
Swing credit	−75 [a]	71 [a]	−71 [a]	3 [c]	16 [c]	−231 [c]	−92 [c]
"S" account [e]				−5 [c]	−25 [c]	−21 [c]	21 [c]
Tied financial credits				139 [c]	−53 [c]	−81 [c]	65 [c]
Trade credits				83 [c]	15 [c]	66 [c]	211 [c]
Free DM accounts [e]				−34 [c]	135 [c]	−30 [c]	−88 [c]
Balance on capital and current accounts	918 [d]	1,242 [d]	1,375 [d]	2,036 [c]	2,170 [c]	2,230 [c]	2,408 [c]

[a] Public information.
[b] The West German Government internally deducts transactions with third countries and certain payments from its publicly announced import and export figures.
[c] 1983 Bundesbank study.
[d] CIA estimate. [redacted] 25X1
[e] Signifies known payment in DM (hard currency).

[redacted] 25X1

[redacted] 25X1

smaller trade deficit accumulated with West Germany in the 1970s compared with deficits with the rest of the West, as well as West German regulations that prohibit domestic banks from extending untied loans to East Germany or financing GDR trade with other countries.[10] [redacted]

[10] Overseas subsidiaries of West German banks apparently have heeded this restriction; West German banks did not participate in large syndicated Eurocurrency loans to East Germany in the 1970s. In 1983, Bonn made an exception to the rules, allowing the overseas banks to underwrite a large untied loan guaranteed by the West German Government. [redacted] 25X1

Despite the comparatively small amount of West German lending, creditors' faith in a West German umbrella helped East Germany to obtain large credits from non-German bankers. Many Western bankers regarded Bonn as the unwritten guarantor of East German debt and pointed to the special intra-German 25X1 economic ties to justify extending credits to East Germany even after financial prudence might have dictated greater caution. This banker largesse allowed

Table 2
East Germany: Net Service Transactions and Transfers From West Germany

Million current West German marks

	1976	1977	1978	1979	1980	1981	1982
Total	**1,120** [a]	**1,300** [a]	**1,340** [a]	**1,986** [b]	**1,761** [b]	**1,950** [b]	**1,935** [b]
Services	500 [c]	580 [c]	600 [c]	1,245 [b]	902 [b]	1,091 [b]	1,104 [b]
Lump-sum transit payments [d]	400 [a]	400 [a]	400 [a]	400 [a]	525 [e]	525 [e]	525 [e]
Transportation improvements [f]	46 [a]	99 [a]	79 [a]	566 [a]	450 [c]	350 [c]	200 [c]
Entry fees for Berliners	24 [a]	18 [a]	24 [a]	18 [a]	50 [b]	50 [b]	50 [b]
Post and telegraph [g]	10 [a h]	10 [a]	11 [a h]	11 [a h]	85 [e i]	85 [e i]	85 [e i]
Sewage removal	11 [a]	11 [a]	10 [a]	11 [a b]	22 [b]	25 [b]	25 [b]
Road use tolls	20 [a]	35 [a]	30 [a]				
East German tourism [d]	−23 [a]	−23 [a]	−25 [a]	−25 [a]	−75 [b]	−130 [b]	−140 [b]
Interest [j]				−79 [b]	−96 [b]	−121 [b]	−361 [b]
Transportation [j]				104 [b]	80 [b]	97 [b]	125 [b]
Other (net)	12 [c]	30 [c]	71 [c]	239 [c]	−139 [c]	210 [c]	595 [c]
Transfers	620 [c]	720 [c]	740 [c]	741 [b]	859 [b]	859 [b]	831 [b]
Minimum currency conversion [d]	230 [a]	230 [a]	250 [a]	250 [a]	250 [b]	300 [c]	350 [b]
Intershop purchases [d]	650 [a]	750 [a]	750 [a]	750 [a]	750 [c]	750 [c]	750 [c]
Genex (gift shops)	131 [a]	139 [a]	145 [a]	181 [a b]	187 [b]	180 [b]	192 [b]
Visa payments (private) [d]				62 [b]	62 [b]	52 [b]	47 [b]
Payments to West German Communist Party	−50 [a]	−50 [a]	−50 [a]	−50 [a]	−50 [c]	50 [c]	−50 [c]
Other (net) [k]	−341 [c]	−349 [c]	−355 [c]	−452 [c]	−340 [c]	−473 [c]	−458 [c]

[a] 1979 Bundesbank study.
[b] 1983 Bundesbank study.
[c] CIA estimate.
[d] Signifies known payment in DM (hard currency).
[e] Public information.
[f] Signifies at least some payment in hard currency.
[g] Signifies known payment in VE (clearing account).
[h] Net.
[i] Gross.
[j] Data covering those conventional invisibles accounts (as opposed to "special services" are not available for period before 1979).
[k] This entry reportedly does not include West German humanitarian payments to East Germany, such as prisoner "ransoms" and payments for legal emigrants. We are uncertain about where the FRG Government accounts for such monies.

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East Germany to diversify its sources of imports by running chronic trade and current account deficits with other Western countries. The result was a buildup in the estimated net hard currency debt to a peak of $12.3 billion by yearend 1981. And, East Germany's debt service ratio rose from 13 percent in 1970 to 59 percent in 1982—the second highest in Eastern Europe (see appendix F). Despite this heavy debt burden and the slowdown in Western bank lending to Eastern Europe in 1981-82, unconfirmed rumors that Bonn was providing direct financial aid helped maintain some banker confidence in East Germany's creditworthiness.

Special Earnings and Other Invisibles. Since the early 1970s, there has been a fairly steady increase in East Germany's hard currency earnings from the provision of special services to West Berlin and West Germany.[11] East German revenues from these nontrade sources increased after 1978 in particular, when the two sides signed a major package of agreements (worth over DM 7 billion through 1989) that provided for major construction projects and an increase in fees

[11] For a detailed explanation of the different types of special earnings, see appendix E.

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The 1980 Exchange Requirement Increase

In October 1980 the Honecker regime suddenly increased to DM 25 the amount of money each West German and other Western visitor must exchange daily for East German currency—the Zwangsumtausch*—and eliminated exemptions for children and pensioners. Previously, West Berliners were required to convert DM 6.50 while residents of the FRG had to exchange DM 13. The move created a crisis in intra-German relations. The regime argued publicly that the increase was needed to compensate for rising costs of subsidized goods and services provided visitors. But the timing of the hike—immediately after the rise of Solidarity in Poland—suggested that the main reason was to reduce the number of visitors from West Germany.*

The increase provided East Berlin a financial windfall. We believe that revenues remained constant in 1980, despite a drop in visitors, and then soared as the number of visitors returned to more normal levels. The US Embassy in East Berlin calculated that in 1980-81 a decline in revenues from visits of West Berliners—many of whom make casual day trips—was more than offset by increased revenue from visitors from the Federal Republic, many of whom take longer trips. A report by the West Berlin Senat *said that visits by West Berliners to the GDR and East Berlin increased by 300,000 in 1982 over 1981. The total number of visits of 1.82 million remained significantly below the pre-1980 level of about 3 million, but the higher exchange requirement generated increased revenues. Despite some uncertainty about the length of visits, we estimate that East Berlin now earns about DM 350 million annually.* 25X1

The Zwangsumtausch *is a continuing source of intra-German friction, but East Berlin has shown little inclination to reduce the requirement greatly. The Kohl government made clear that it expected some action in the "humanitarian" area in response to its guarantee of the 5-year DM 1-billion loan from West German banks in July 1983. Last September East Berlin eliminated the exchange requirement for children under 14. Rather than rescind a lucrative source of hard currency earnings, the regime, in our view, is more likely to allow more East Germans to visit West Germany—possibly by reducing the age at which East Germans may travel relatively easily to the FRG—or roll back the exchange requirement for certain groups such as pensioners.* 25X1

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for the use of East German transportation facilities connecting West Berlin with West Germany (see appendix E). The flow of West German visitors to East Germany has been the most important source of earnings, totaling more than DM 1 billion annually throughout the period. Although *Intershop* purchases have remained fairly constant, East German hard currency earnings from currency conversion requirements imposed on Western visitors have increased appreciably in recent years (see table 2 and inset, "The 1980 Exchange Requirement Increase").

With these special agreements, East Germany thus has exploited the accident of history that created the "island" of West Berlin, has taken advantage of Bonn's efforts to keep the door open for reunification by expanding ties between the two Germanys, and has exploited such "humanitarian" concerns as the desire of West Germans to remain in contact with family and friends in the East.[12] East Berlin has allowed increased contacts despite its concern that these would undermine its control of the populace and thwart its efforts to create a separate East German national identity. These special earnings have accounted for all of the rise in East Germany's invisibles surplus with West Germany, from DM 1.1 billion in 1976 to DM 1.9 billion in 1982 (see table 1), and have been the key factor in the tripling of the bilateral current account surplus during this period. On conventional services transactions, such as transportation and interest payments, East Germany has been running an overall deficit in recent years. 25X1

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[12] For West Germany, "humanitarian" issues refer to a variety of East German policies that separate the German people and limit the freedom of East Germans. These include restrictions on FRG residents' travel to the GDR and East German controls on emigration and on travel by East German residents to the FRG. The humanitarian issues are especially important to Bonn because it maintains that East Germans, as German nationals, hold West German citizenship. 25X1

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Table 3 *Million US $*
East Germany: Total Hard Currency Balance of Payments and Debt

Year	Net Invisibles Excluding Interest	Net Interest	Trade Balance	Current Account Balance	Net Debt [a]
1970	56	−50	−299	−293	1,007
1971	132	−61	−268	−197	1,205
1972	175	−75	−483	−383	1,229
1973	220	−135	−774	−689	1,876
1974	260	−211	−1,068	−1,019	2,592
1975	250	−192	−1,125	−1,067	3,548
1976	450	−305	−1,591	−1,446	5,309
1977	550	−376	−1,510	−1,336	6,159
1978	650	−607	−1,137	−1,094	7,548
1979	800	−848	−1,810	−1,858	9,776
1980	900	−910	−1,590	−1,600	11,592
1981	985	−1,534	60	−489	12,267
1982	950	−1,220	1,509	1,239	10,718
1983 [b]	850	−865	1,324	1,309	9,033

[a] Changes in current account balance do not translate into identical changes in net debt because of occasionally sizable errors and omissions entries.
[b] Preliminary.

Source: CIA estimate based on BIS, OECD, NATO, UN, and West German data.

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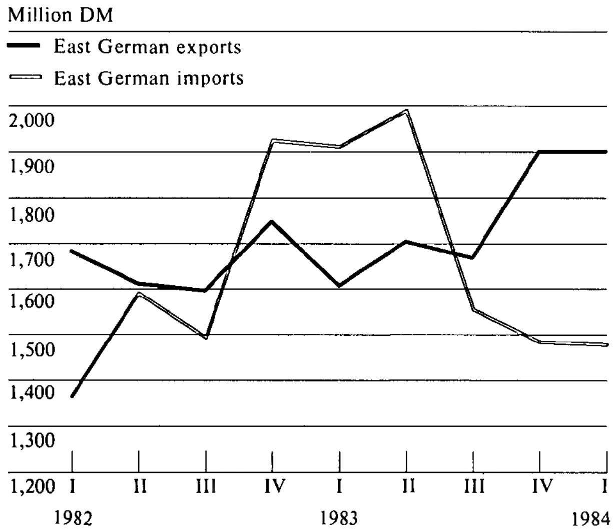
Our estimates show that East Berlin's earnings from the relationship with West Germany have more than offset its large net outflow in hard currency interest payments to other Western countries through 1978 and kept its net invisibles payments in only modest deficit through 1980. We compute that earnings from West Germany accounted for essentially all of the East German surplus on hard currency invisibles excluding interest payments, which increased from an estimated $56 million in 1970 to $950 million in 1982 (see table 3 and, for additional detail, appendix F).[13] Therefore, while other East European countries were borrowing increasingly in the late 1970s to cover their debt service requirements, East Germany until 1981 used its borrowings almost exclusively to import real goods and services. Moreover, these earnings helped sustain bankers' confidence that Bonn provided a financial "umbrella" for East Berlin and reinforced their willingness to lend to East Germany, delaying the need for East Berlin to eliminate its chronic trade deficits with the West. 25X1

The West German Cushion in 1982-83

East Germany's special economic ties with West Germany continued to help East Berlin even when debt servicing requirements and increased bankers' anxieties finally forced a major trade adjustment. Beginning in 1982, East Berlin increased its imports from West Germany to help compensate for a forced cutback in imports from other Western countries and in 1983 received a major, untied hard currency loan guaranteed by Bonn. It was able to increase purchases

[13] For example, at their current exchange rates, we estimate that in 1982 invisibles earnings from the FRG (DM 1.9 billion) accounted for about $800 million of East Germany's overall $950 million surplus. 25X1

Figure 6
East Germany: Trade With West Germany, 1982-84



Source: *Warenverker mit der Deutschen Demokratischen Republik und Berlin (Ost),* (various issues)

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from West Germany abruptly by using the intra-German clearing account and taking advantage of readily available West German trade credits. For 1982 as a whole, imports from the FRG grew about 14 percent, according to West German data, while imports from other nonsocialist countries dropped by 30 percent.[14] Such purchases were particularly large during the last quarter of 1982 and the first half of 1983. During this nine-month period, East Germany registered a trade deficit with West Germany of DM 902 million, according to West German statistics (see figure 6).

Evidence of a West German financial umbrella and East Berlin's ability to shift to a hard currency surplus in trade with other Western countries made international bankers more willing to lend again to East Germany by mid-1983. As a result, East Germany then cut imports from West Germany, boosted exports, and for 1983 as a whole managed to register a modest DM 69-million trade deficit with the FRG.[15] East Berlin had increased trade-related borrowings from West Germany by about DM 700 million between mid-1982 and mid-1983. It reduced this debt by about DM 500 million in late 1983 when lending from other sources began to revive, cutting net debt to DM 4.0 billion at yearend, according to the West German Government. 25X1

East Germany was able to redirect trade toward West Germany because of its continued special access to West German markets and the clearing account. West German banks and trading companies financed not only increased sales of West German goods but also deliveries of commodities such as grain that were channeled into intra-German trade from other countries. As a result, the composition of East German purchases from West Germany shifted noticeably in 1982-83 toward increased raw materials and semimanufactured goods and relatively fewer investment goods (see appendix D). 25X1
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The East Germans also used the intra-German clearing account to generate hard currency. East Berlin bought some commodities, such as silver, on credit from West Germany and then exported them elsewhere for cash to help improve its financial position. West German officials estimate that such transactions netted $100 million in hard currency for East Germany in 1983 at the cost mainly of a rise in official, clearing account debt to West Germany. 25X1

Bonn's decision in June 1983 to guarantee an untied DM 1-billion loan from West German bank subsidiaries in Luxembourg gave East Berlin a further financial boost and helped 25X1
25X1

[14] We estimate that, despite the increase in imports from West Germany, shortages caused industrial disruptions and cut GNP growth from about 2 percent in 1981 to almost zero in 1982.

[15] OECD data mirror the West German statistics. In the third quarter of 1983, as East Germany's borrowing prospects in the West improved and its imports from the FRG began to fall, purchases from other Western countries rose by about 30 percent compared with year-earlier levels to help reduce its bilateral trade imbalance. As the GDR boosted exports to the FRG in the third quarter of 1983, deliveries to other Western countries fell 3.5 percent. 25X1
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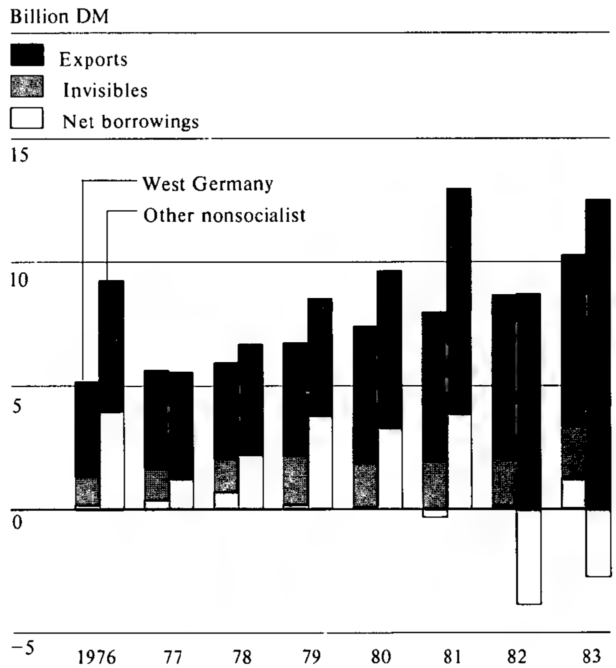
restore Western banker confidence in East Germany's creditworthiness.[16] The loan helped ease the threat of a liquidity crisis by covering about 12 percent of East Germany's 1983 financing requirement. It also provided East Germany with less expensive intermediate-term money—1 percent over the London Interbank Offered Rate (LIBOR)—than we believe it had been able to find since 1980. The five-year credit improved the maturity structure of East Germany's debt; between late 1981 and mid-1983, East Germany apparently had been able to arrange only two-year and shorter trade credits from commercial sources. [redacted] 25X1

The drop in Western lending and the expansion of intra-German economic relations left West Germany as the leading source of hard currency (or hard currency–equivalent) resources for East Germany—in contrast to the situation in the 1970s—(see figure 7). Current account earnings in intra-German transactions continued to grow while receipts from other Western partners fell. More important, the East Germans suffered a nearly DM 4-billion outflow on the capital account to other Western countries in 1982 and another DM 2.7 billion in 1983. The "jumbo" loan made by offshore bank subsidiaries and increased trade financing raised East Germany's debt to West German–controlled institutions by an estimated DM 1.2 billion in 1983. By buying on clearing account from West Germany, the East Germans were able to direct hard currency export receipts and West German invisibles payments toward paying off debt owed to other Western banks. The East Germans, in effect, paid off creditors outside West Germany through borrowings from West German–controlled institutions. [redacted] 25X1

Figure 7
East Germany: Sources of Hard Currency Receipts, 1976-83



This figure represents sources of hard currency available for either financing imports or servicing debt.

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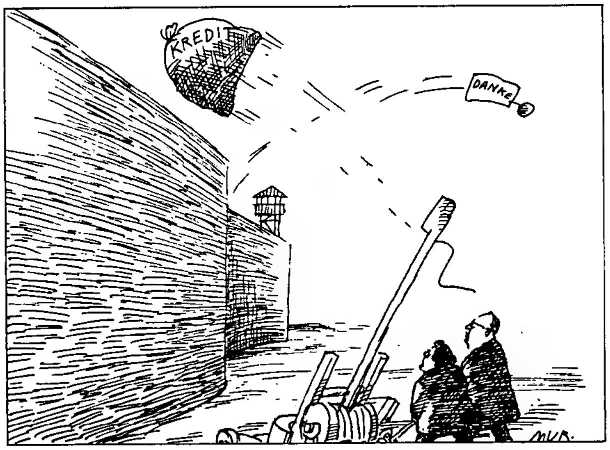
[16] The guarantee—secured by Bonn's ability to withhold regular lump-sum payments to East Berlin in the event of default—was extended without any explicit economic or political conditions. It was granted with the expectation, however, that East Germany eventually would reciprocate by making "humanitarian" concessions such as easing travel barriers. The government was widely criticized for having failed to secure a tangible quid pro quo (see cartoon). [redacted]

The loan was a surprise and was an apparent reversal of previously stated Christian Democratic Union (CDU) policy that economic benefits should be extended to the GDR only in return for political concessions. Moreover, Chancellor Kohl's Christian Social Union ally Franz Josef Strauss, long a recognized hawk on intra-German relations, publicly claimed major responsibility for arranging the deal. Shortly after the loan was announced, Strauss visited three East European countries and conferred with Honecker in East Berlin; he since has portrayed himself as a leading proponent of better intra-German relations. [redacted] 25X1

Kohl and Strauss appear to have been motivated partly by a desire to prevent economic dislocations in East Germany, which they feared could lead to social instability and cause East Berlin to impose more rigid domestic controls and restrict ties with the West. They also apparently hoped the credit would help insulate intra-German ties from any deterioration in East-West relations after the deployment of US intermediate-range nuclear weapons in the fall of 1983. [redacted] 25X1

[redacted] 25X1



Suddeutsche Zeitung ©

Many West Germans believe that Bonn gets little in return for its payments to East Berlin.

Prospects

Recent history suggests that East Germany will continue to enjoy considerable economic benefits from its special relationship with West Germany, so long as the latter remains willing to assume the costs in order to promote its political goals. The large umbrella that went up in 1982-83 indicates that the West Germans are willing to arrange assistance quickly and waive regulations when the need arises. Moreover, the aid was extended without political strings or explicit concessions from East Berlin, save the hope of "humanitarian" concessions somewhere down the road. In July 1984 the West German Government approved the guarantee of a second jumbo loan of DM 950 million in return for some relatively minor easing of intra-German travel restrictions, including a reduction in the *Zwangsumtausch* for pensioners and increasing the length of visits allowed each year. The loan will help improve East Berlin's financial situation further by extending maturities and reducing interest expenses somewhat. We believe Bonn would step in again should it become concerned about the economic and political stability of East Germany.[17]

[17] Last September, East Berlin announced relaxation of controls on emigration for purpose of marriage and elimination of the *Zwangsumtausch* for children under 14 years old. It also dismantled some of the automatic-firing devices along the GDR-FRG border. The reduced exchange requirement affects only about 5 percent of travel, however, and some West German commentators called the moves an inadequate response to the 1983 loan guarantee. 25X1

We expect that the growth of intra-German commerce will moderate as other Western bankers become more willing to extend trade credits. Moreover, to prevent excessive dependence, East Berlin will seek to maintain a reasonable balance in the bilateral trade relationship. In fact, it ran a DM 424-million surplus in the first quarter of 1984, continuing the trend begun in September 1983, and we expect East Berlin will register a surplus for the year. Trade deficits may emerge again for short periods, but East Berlin will seek to control their size and duration. We thus believe that East Germany will reduce the share of its bilateral trade financed with West German Government credits. 25X1

At the same time, we think that East Germany may strike new industrial cooperation agreements with 25X1 West German firms that bring it new technology and, in the long run, enhance its hard currency export earnings. Although they are traditionally reluctant to enter joint ventures with any Western firms, the East Germans early this year tentatively agreed to produce car engines for Volkswagen beginning in 1988. At the Leipzig Fair in March, the GDR announced a DM 300-million long-term deal calling for West German companies to roll East German slab steel. We believe East Berlin is willing to make more such commitments if the economic price is right and the political cost is low. The regime probably will move deliberately, however, and the predictions of West German businessmen that industrial cooperation will increase substantially seem overoptimistic. 25X1

East German earnings from services, fees, and tourism from West Germany will continue to provide an important economic cushion. According to our estimates, they will total at least DM 2 billion annually. We think East Berlin will have some success in increasing fees and service payments as agreements come up for renewal. Moreover, the apparent eagerness of Bonn and East Berlin to continue economic discussions despite the chill in East-West relations 25X1 could lead to agreements on new joint projects in the

areas of water pollution control, rail electrification, and further improvements in the autobahns and border-crossing points. The two sides also could resurrect negotiations on construction of a lignite-fired power plant to serve West Berlin or an electricity transmission line from the FRG to the city. 25X1

Bonn remains committed to securing humanitarian gains and, we believe, could persuade East Berlin to lower the exchange requirement for all visitors by offering a lump-sum annual payment. But, in our view, the East Germans will demand a payment that is higher than their present income from the exchange requirement; they probably would want at least DM 400 million yearly. East Germany may also want to strike a multiyear agreement to facilitate long-term planning. In 1982 the East Germans sought an extension of the swing through 1985 explicitly to facilitate economic planning. Any improvement in bilateral political relations could stimulate more visits by West Germans and increase tourism revenue for East Germany. Moreover, East Berlin could realize additional earnings by again liberalizing its emigration policy and thus exploring Bonn's willingness to pay for the release of East German citizens. 25X1

While considerable benefits accrue to East Germany from its "special relationship" with West Germany, they will not be enough to overcome the effects of other economic problems. East Berlin's debt remains high and some Western bankers remain skeptical of its creditworthiness. East Germany still needs to improve significantly its industrial efficiency and export capabilities. Moreover, continuing difficult relations with its CEMA partners, which account for almost two-thirds of East Germany's total trade, will present the regime with major challenges. These pressures will push East Berlin to continue to exploit its intra-German economic opportunities, but always within the constraints posed by the Soviet leash and by its own fear of becoming too dependent on West Germany. 25X1

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Appendix B

West Germany: Deutsche Marks per US Dollar

Year	Yearend	Year's Average
1949	4.2	4.2
1950	4.2	4.195
1951	4.2	4.195
1952	4.2	4.195
1953	4.2	4.2
1954	4.2	4.2
1955	4.2	4.2
1956	4.2	4.2
1957	4.2	4.2
1958	4.2	4.2
1959	4.2	4.2
1960	4.2	4.2
1961	4.0	4.0333
1962	4.0	4.0
1963	4.0	4.0
1964	4.0	4.0
1965	4.0	4.0
1966	4.0	4.0
1967	4.0	4.0
1968	4.0	4.0
1969	3.66	3.9433
1970	3.66	3.6600
1971	3.2225	3.4908
1972	3.2225	3.1886
1973	2.6690	2.6726
1974	2.4095	2.5878
1975	2.6223	2.4603
1976	2.3625	2.5180
1977	2.1050	2.3222
1978	1.8280	2.0086
1979	1.7315	1.8329
1980	1.9590	1.8177
1981	2.2548	2.2600
1982	2.3765	2.4266
1983	2.7238	2.5533

Source: *International Financial Statistics*, International Monetary Fund, various years.

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Appendix C

East Germany: Trade With West Germany

Million current West German marks

	Exports		Imports		Balance
	Total	Percent Change Over Previous Year	Total	Percent Change Over Previous Year	
1952	220.3		178.5		
1953	306.9	39.3	271.3	52.0	35.6
1954	449.7	46.5	454.5	67.5	−4.8
1955	587.9	30.7	562.6	23.8	25.3
1956	653.5	11.2	699.2	24.3	−45.7
1957	817.3	25.1	845.9	21.0	−28.6
1958	858.2	5.0	800.4	−5.4	57.8
1959	891.7	3.9	1,078.6	34.8	−186.9
1960	1,122.5	25.9	959.5	−11.0	163.0
1961	940.9	−16.2	872.9	−9.0	68.0
1962	914.4	−2.8	852.7	−2.4	61.7
1963	1,022.3	11.8	859.6	0.8	162.7
1964	1,027.4	0.5	1,151.0	33.9	−123.6
1965	1,260.4	22.7	1,206.1	4.8	54.3
1966	1,345.4	6.7	1,625.3	34.8	−279.9
1967	1,263.9	−6.1	1,483.0	−8.8	−219.1
1968	1,439.5	13.9	1,422.2	−4.1	17.3
1969	1,656.3	15.1	2,271.8	59.7	−615.5
1970	1,996.0	20.5	2,415.5	6.3	−419.5
1971	2,318.7	16.2	2,498.6	3.4	−179.9
1972	2,380.9	2.7	2,927.4	17.2	−546.5
1973	2,659.6	11.7	2,998.5	2.4	−338.9
1974	3,252.5	22.3	3,670.8	22.4	−418.3
1975	3,342.3	2.8	3,921.6	6.8	−579.3
1976	3,876.7	16.0	4,268.7	8.9	−392.0
1977	3,961.0	2.2	4,409.4	3.3	−448.4
1978	3,899.9	−1.5	4,574.9	3.8	−675.0
1979	4,588.9	17.7	4,719.6	3.2	−130.7
1980	5,579.6	21.6	5,293.2	12.2	286.4
1981	6,050.6	8.4	5,575.1	5.3	475.5
1982	6,639.3	9.7	6,382.3	14.5	257.0
1983	6,877.8	3.6	6,947.1	8.8	−69.3

Source: *Warenverkehr mit der Deutschen Demokratischen Republik und Berlin (Ost) 1983* (official West German statistics) [redacted]

[redacted]

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Appendix D

East Germany: Composition of Trade With West Germany

Thousands of West German marks

Commodities	Imports		Exports	
	1981	1982	1981	1982
Total	**5,575,074**	**6,382,316**	**6,050,648**	**6,639,298**
Products of farms, forests, fishing, and so forth	**27,038**	**181,256**	**465,233**	**475,841**
Farm and market garden produce	21,227	167,218	183,894	188,500
Live animals and animal produce	221	1,099	251,814	260,217
Forestry produce	5,010	8,048	22,450	18,988
Fish produce	580	4,891	7,075	8,136
Mining products	**1,039,845**	**819,889**	**203,082**	**241,135**
Raw materials and semifinished goods	**2,009,118**	**2,754,224**	**3,181,158**	**3,366,402**
Minerals	22,690	28,432	1,628,842	1,704,999
Chemical elements and isotopes	463	739	972	1,393
Stone and earth	38,529	40,452	113,985	125,846
Iron and steel	321,892	612,798	273,596	243,462
Nonferrous metals and semifinished metals	391,238	559,992	249,951	251,063
Foundry products	7,549	4,969	15,243	17,154
Drawn and cold rolled goods	59,706	70,952	28,108	29,840
Chemicals	981,800	1,290,295	704,813	778,793
Cut and worked timber	75,744	52,453	42,137	92,552
Wood pulp, paper, and boards	47,393	49,236	93,553	81,294
Rubber goods	62,114	43,906	29,958	40,006
Investment goods	**1,426,347**	**1,282,810**	**607,836**	**694,424**
Shaped steel	7,058	5,453	25,350	32,579
Constructional steel and rails	66,579	53,681	29,171	41,732
Mechanical engineering products and so forth	971,829	886,128	157,623	188,261
Road vehicles	37,595	37,898	24,023	24,245
Water craft	3,745	13,631	33,937	13,264
Aircraft and spacecraft	39		37	41
Electrical engineering products	214,384	176,637	192,601	228,187
Precision instruments, optical equipment, and clocks	47,647	33,103	43,238	49,173
Iron plate and metal goods	67,278	58,232	92,407	106,650
Office equipment, data processing, and so forth	10,110	17,988	7,636	9,712
Finished sections for construction engineering	83	59	1,813	580

East Germany: Composition of Trade With West Germany (continued)

Thousands of West German marks

Commodities	Imports		Exports	
	1981	1982	1981	1982
Consumer goods	**471,307**	**523,024**	**1,343,205**	**1,589,782**
Musical instruments, sports equipment, and so forth	17,133	14,727	61,070	71,127
Pottery, china, and so forth	4,060	3,925	74,120	74,500
Glass and glass goods	12,165	15,000	87,351	104,328
Wooden goods	12,874	11,429	267,996	300,916
Paper and board products	16,311	14,028	36,179	33,235
Printed goods	39,537	40,261	31,601	34,973
Plastic goods	52,061	49,997	46,944	61,338
Leather	39,611	67,933	4,471	5,316
Leather goods and shoes	46,745	37,399	43,739	49,817
Textiles	186,633	235,675	385,804	450,968
Clothing	44,177	32,650	303,930	403,264
Foodstuffs and so forth	**533,228**	**745,978**	**213,902**	**229,840**
Foodstuffs	508,525	718,537	210,655	221,208
Tobacco	24,703	27,441	3,247	8,632
Miscellaneous goods	**68,191**	**75,135**	**36,232**	**41,874**

Source: *Warenverkehr mit der Deutschen Democratischen Republik und Berlin (Ost) 1982* (official West German statistics). [redacted] 25X1

East Germany bought more raw materials and semimanufactured goods in 1982-83 mainly to meet the needs of current production. West German statistics show that East Germany boosted imports of iron and steel products 63 percent in 1983—to about DM 1 billion—after a 90-percent gain in 1982. Imports of foodstuffs rose 31 percent in 1983 after a 41-percent rise the year before. Growth in these imports slowed markedly in the second half of 1983 when overall imports declined as East Berlin returned to a more normal trading pattern. Imports of investment goods, on the other hand, fell slightly after a 10-percent drop in 1982. East Germany's best export gains, though modest, were in investment and consumer goods. [redacted]

[redacted]

OECD commodity trade data for 1982 show that East German purchases of foodstuffs from non-German sources declined by $340 million—over 47 percent. Imports of manufactured goods declined by about one-third, paced by a 46-percent decline in chemicals and a 63-percent drop in transportation goods. The composition of East German exports to OECD, on the other hand, showed little change in 1982 from 1981, similar to the relatively small change in East German exports to West Germany. [redacted] 25X1

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Table E-1
East Germany: Selected Joint Construction Projects With West Germany and West Berlin

Project	Cost *(Million DM)*	Status	Ongoing Fees	Comments
Hamburg-Berlin Autobahn	1,200	Completed		Project involved expansion of some existing road near Berlin and new construction on the autobahn link. Part of 1978 package.
Warta-Herleshausen Autobahn	Undetermined	Under negotiation		Highway improvements.
Berlin-Hof Autobahn	500-1,500	Under negotiation		Project to widen and resurface existing roadway.
Helmstedt Autobahn	Undetermined	On hold		Highway improvements.
Spandau Lock expansion (Berlin)	30	Completed	Transit fees	Agreement signed 30 November 1977. Expansion benefits FRG and GDR shippers.
Teltow Canal reopening (Berlin)	70	Completed	Transit fees	38 kilometers through West Berlin shortens barge transport time for shippers by one to two days. Canal had been closed since 1945. Reopening agreement signed November 1978.
Havel and Mittelland Canal improvements	NA	Completed	Transit fees	Canals link the FRG with West Berlin and, ultimately, Poland via the Oder-Spree Canal. Improvements widened and deepened the canals, increasing capacity and reducing costs. Part of 1978 agreement package.
Power plant	Undetermined	On hold		Lignite-fired plant to provide electricity for West Berlin.
Natural gas pipeline	230	Under construction	9 million VE annually.	Contract signed March 1983. Spur gasline to provide Soviet gas to West Berlin. Contract signed with Ruhrgas AG. Transit fees to begin upon completion in October 1985.
Electricity transmission line	150-200	On hold	Transmission and right-of-way fees.	Project designed to transmit electricity from the Federal Republic to West Berlin.
Fiber optic telephone lines to West Berlin	15-20	Under negotiation		Agreement in principle signed as part of November 1983 post and telegraph agreement.
Crossing point in Berlin		Under construction		East Berlin agreed to keep open Staaken crossing point until completion of the new border-crossing point.
Electrification of rail lines	Undetermined	On hold		Long under tentative negotiation.
Pollution control on Elbe, and Werra Rivers	At least several hundred million	Under negotiation		East German industry dumps heavy metals into the Elbe. Potash mining pollutes the Werra with salts. Bonn and West German states apparently near agreement on sharing the costs.
Roeden River water purification plant	60-80	Agreed upon		Signed agreement in October 1983. Eighteen million DM committed by FRG and Bavarian governments for 1984. Project scheduled for completion in 1987 at Sonneberg, East Germany.

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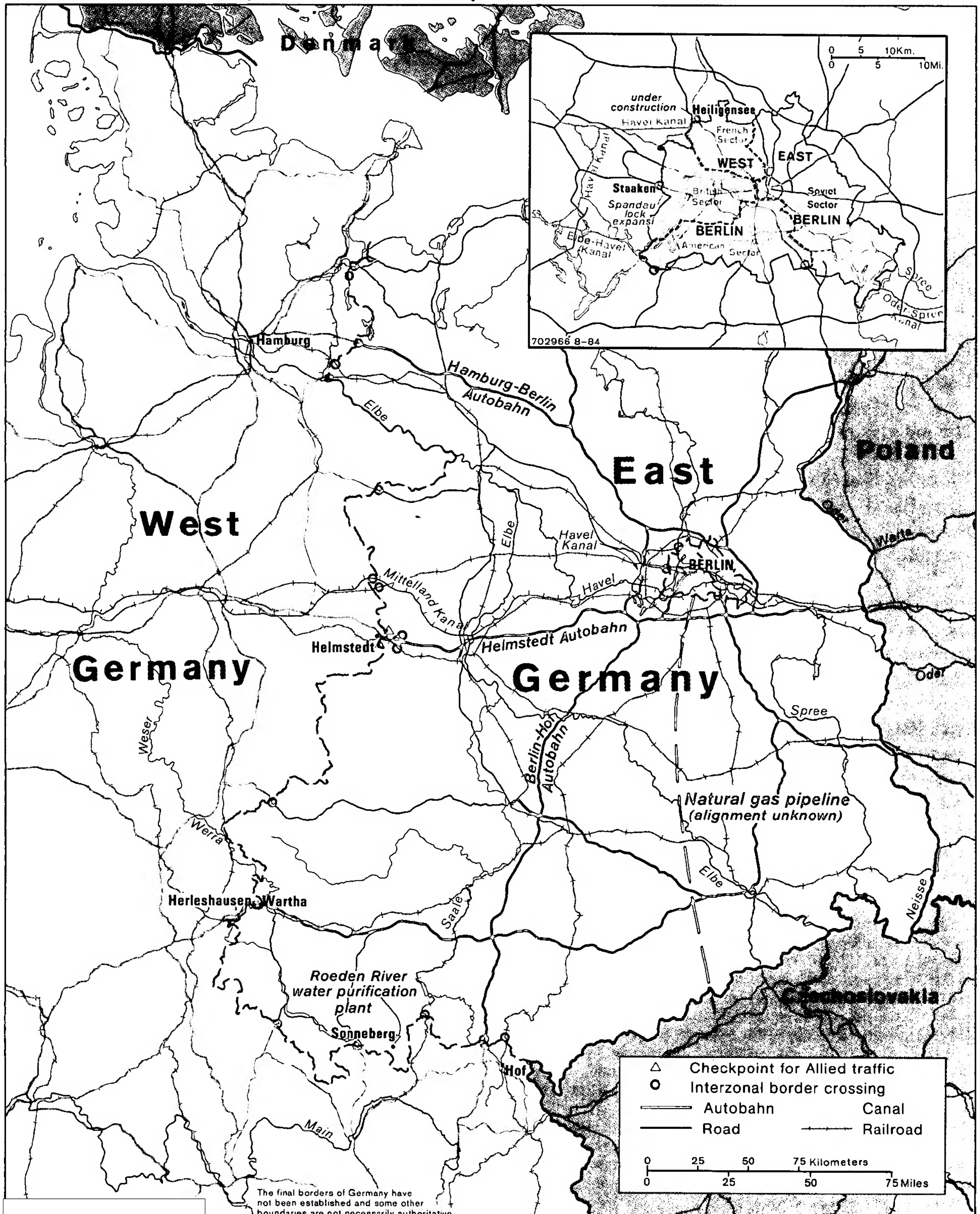
Figure 8
East Germany's Joint Projects With West Germany



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Appendix F

East Germany: Hard Currency Balance of Payments and Debt

Million US $
(except where noted)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 [a]	1982 [a]	1983 [b]
Current account balance	−293	−197	−383	−689	−1,019	−1,067	−1,446	−1,336	−1,094	−1,858	−1,600	−489	1,239	1,309
Trade balance	−299	−268	−483	−774	−1,068	−1,125	−1,591	−1,510	−1,137	−1,810	−1,590	60	1,509	1,324
Exports	1,261	1,368	1,642	2,230	3,014	3,062	3,643	3,578	4,158	5,098	6,555	6,714	7,172	7,624
Imports	1,560	1,636	2,125	3,004	4,082	4,187	5,234	5,088	5,295	6,908	8,145	6,654	5,663	6,300
Net invisibles, excluding interest	56	132	175	220	260	250	450	550	650	800	900	985	950	850
Net interest	−50	−61	−75	−135	−211	−192	−305	−376	−607	−848	−910	−1,534	−1,220	−865
Capital account balance	298	211	146	528	1,000	2,052	1,668	1,289	1,749	2,779	1,816	675	−1,730	−600
Drawings	418	352	354	858	1,367	2,520	1,376	2,156	2,862	4,179	4,375	2,925	1,270	2,190
Repayments	120	141	208	276	367	468	708	867	1,113	1,400	1,941	2,250	3,000	2,790
Errors and omissions	−5	−1	359	42	303	111	−53	224	−295	−370	−393	−296	216	567
Changes in reserves	−6	13	122	−65	284	1,096	−831	177	360	551	609	90	−275	1,276
Gross debt	1,197	1,408	1,554	2,136	3,136	5,188	6,118	7,145	8,894	11,673	14,098	14,863	13,039	12,630
Commercial	700	855	945	1,510	2,495	4,485	5,043	6,140	7,729	9,672	11,253	11,583	9,489	8,510
Official	497	553	609	626	641	703	1,075	1,005	1,165	2,001	2,845	3,280	3,550	4,120
Reserves	190	203	325	260	544	1,640	809	986	1,346	1,897	2,506	2,569	2,321	3,597
Net debt	1,007	1,205	1,229	1,876	2,592	3,548	5,309	6,159	7,548	9,776	11,592	12,267	10,718	9,033
Of which:														
West Germany	460	500	550	675	790	920	1,100	1,420	1,700	1,850	2,000	1,650	1,555	1,469
Total debt service	170	202	283	411	578	660	1,013	1,243	1,720	2,248	2,851	3,784	4,220	3,655
Debt service ratio *(percent)* [c]	13	15	17	18	19	22	28	35	41	44	43	56	59	48
Gross annual financing requirements (repayments on medium- and long-term debt plus current account deficit) [d]	413	338	591	965	1,386	1,535	2,154	2,203	2,207	3,258	3,541	2,739	1,761	1,481
Net resource transfer	248	150	71	447	789	1,860	363	913	1,142	1,931	906	−859	−2,950	−1,465

[a] 1981 East German trade data are especially inconsistent with partner country data. For this reason the 1981-82 trade and current account estimates should be regarded as very tentative.
[b] Preliminary.
[c] Repayments of medium- and long-term debt plus net interest as a share of exports.
[d] Difference between drawings and debt service.

Source: CIA estimates based on official East German partner country trade and BIS data.

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